New York State plans to renovate Penn Station and spur massive development in the area surrounding the station. Plans for the renovation and expansion of Pennsylvania Station and changes in the area surrounding the station have been debated for years. New York's Pennsylvania Station serves Amtrak, the Long Island Rail Road (the largest commuter rail line in the United States), and New Jersey Transit as well as New York City subway riders. The station was rebuilt in 1963, replacing the original Penn Station which was designed by McKim, Mead & White in the Beaux-Arts style, but has run out of capacity and is overcrowded[1] The demolition of the 1910 building outraged many people concerned about preservation. According to architectural historian Vincent Scully, the original station allowed visitors to enter "the city like a god…One scuttles in now like a rat". New York Governor Kathy Hochul has called Penn Station a "hellhole."[2]

In an effort to improve Pennsylvania Station and transform it into a modern transit hub with expanded capacity and increased public access, New York State's Empire State Development (ESD) adopted a General Project Plan known as the Empire Station Complex Civic and Land Use Improvement Project. The current Penn Station reconstruction plan revises the plan which former Governor Andrew Cuomo proposed in 2021 for the Empire Station Complex, including mixed use development to generate revenue to help pay for Pennsylvania Station's reconstruction and potential expansion. In November 2021, Governor Kathy Hochul proposed a revised Pennsylvania Station improvement plan to transform the station into a majestic public space akin to Grand Central Station. Known as the Pennsylvania Station Area Civic and Land Use Improvement Project (Penn Station area plan), the revised plan reduces the original plan's density and increases residential units[3].

It is a planned public-private partnership to transform the country's busiest train station into an attractive new train hall with increased passenger access and safety while creating a high-density, transit-oriented, mixed-use district that will generate tax revenue and foster economic growth, creating jobs and residential and office space. The Pennsylvania Station Area Civic and Land Use Improvement Project includes Penn Station's reconstruction, the station's expansion to the south, public realm improvements, transit improvements, and new private, mostly commercial with some residential, development on eight sites near Pennsylvania Station. According to ESD, the estimated total cost for the station's reconstruction, potential expansion, public space improvements, and transit improvements is $22 billion. The federal government, New York State, and New Jersey will split the $22 billion cost

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[1] Levy, Alon. "Why a New Train Hall Won't Fix Penn Station." *CityLab*, January 4, 2018.
[2] Haag, Matthew, and Patrick McGeehan."The Penn Station $7 Billion Fix-up Moves Ahead: Here's What to Know." *The New York Times*, 21 July 2022.
[3] https://www.mas.org/news/penn-station-needs-master-plan/

so that the federal government pays 50 percent and New York State and New Jersey each pay 25 percent.[4] The project's success is dependent on funding. ESD proposes to use a form of value capture financing from new development on building sites adjacent to Pennsylvania Station to help fund New York State's cost share for the reconstruction of the existing station, public space and transit improvements, and the potential station expansion similarly to how value capture financing was used to fund the 7-line subway extension from Times Square to Hudson Yards. Questions about the Penn Station area plan's scope and its financing still need to be answered. This paper examines the state's financing plan for the Pennsylvania Station area plan and the fiscal impact and risks for the city and state.

The Pennsylvania Station area plan proposes to reconstruct Pennsylvania Station to improve the Penn Station experience for LIRR, NJ Transit, Amtrak, and subway passengers by modernizing Penn Station, increasing natural light via skylights, improving passenger circulation and accessibility with widened stairways, wider passages, and more new elevators and escalators, increasing the number of station entrances, improving air circulation, and addressing traffic problems, such as crowded commuter trains and tracks.[5] Upgrades include transit improvements to widen subway stairs and platforms and connect nearby subways, including the 34th Street-Herald Square subway station and the 33th Street Path station, to Penn Station with a below grade pedestrian concourse. Although the MTA and Amtrak have not finalized a master plan for the reconstruction of the existing Penn Station, costs for the Penn Station reconstruction are estimated to total $7 billion. Costs for transit improvements are estimated to total $1.5 billion.[6] In addition, Penn Station's proposed underground expansion south adds new tracks and platforms. It will connect to a new Hudson River Tunnel, part of the Gateway Program funded by Amtrak, the federal Department of Transportation , New York State, New Jersey, and the Port Authority of NY-NJ, easing the congestion for trains traveling from Newark to New York City. The Gateway Program Hudson River Tunnel is not included in the Pennsylvania Station Civic and Land Use Improvement Project[7]. ESD estimates the total cost for the Penn Station expansion will be $13 billion. In addition to reconstruction, expansion, and transit improvements, the Pennsylvania Station area plan contains public realm upgrades, including streets shared by pedestrians and

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[4] https://esd.ny.gov/sites/default/files/Penn-cost-shares-07242022.2pdf

[5] Empire Station Complex Draft Environmental Impact Statement

[6] Rein, Andrew. "Statement on the Empire State Development General Project Plan and Letter of Mutual Agreement with the City for the Penn Station Area Civic and Land Use Improvement Project," Citizens Budget commission, July 26, 2022

[7] "On Track or Off the Rails? New York State's Plan to Use New Development to Fund Penn Station Improvements Leaves Many Open Questions for New York City and State," Fiscal Brief, New York Independent Budget Office, May 2022

bicyclists, widened sidewalks, and a public plaza. The $500 million estimated total cost for public space improvements represents only a small portion of the $22 billion total price tag for the Penn Station project[8].

The Pennsylvania Station area plan depends on new real estate development to underpin the station's improvements. New York State Governor Kathy Hochul's property development plans for the Penn Station area consist of over 18 million square feet of development at eight sites surrounding Penn Station between West 30th and West 34th Streets from Sixth to Ninth Avenues that will include the construction of ten commercial and mixed-use towers. The state would use a tax increment financing alternative called payments in lieu of taxes, or PILOTS, in which payments collected from the new development will pay down the debt that funds the Pennsylvania Station area plan.

New York State and New York City have agreed to use the public financing tool of value capture finance, using new commercial development adjacent to Penn Station to generate revenue streams to help repay debt used to finance the costs of infrastructure construction. Tax increment financing is a type of value capture financing that diverts future property taxes from New York City's general fund to financing infrastructure improvements. The value capture strategy proposed for the Penn Station area project uses a variation of tax increment financing which finances infrastructure improvements through the use of taxes on future property value growth. Money is collected for infrastructure improvements from developers or owners who will benefit from the improvements. New York State intends to use the tax increment financing alternative of PILOTs, tax payments in lieu of taxes, as a substitute for city property taxes. Instead of paying real estate taxes to the city, developers would pay PILOTs to the state. The plan has fiscal guards, including capping limitations for Pilot revenue associated with the different parts of the project to help protect New York City and the state from cost overruns. Additionally, the state will keep any excess PILOT funding revenue[9]. ESD has not presented full details about how the PILOTs will be structured, including discounts relative to real estate taxes, length of the discounts, and the necessity of giving discounts to attract development. PILOTs can be equal to actual taxes or discounted. The revenue from PILOTs will pay off the debt issued to fund Penn Station's reconstruction and upgrades. PILOTs will encourage development of commercial property to help pay for Penn Station's reconstruction, potential station expansion, public space, and transit improvements. Hudson Yards, near Penn Station, is a recent example of value capture financing in which developers

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[8] https://esd.ny.gov/sites/default/files/Penn-cost-shares-07242022.2pdf

[9] https://cbcny.org/research/tax-increment-financing-primer

made discounted PILOTs instead of paying higher real estate taxes. New York City paid for the 7-line subway extension with bonds that had interest paid by the PILOTs[10].

Under the Pennsylvania Station area plan, the state will take over ownership of the eight sites which will be exempt from New York City real estate taxes. Because the city would yield its future property tax revenue from the eight sites to New York State, the state has agreed to replace the city's property tax shortfall with "make-whole" payments. New York State will fill the gap created in the city's budget caused by the Penn Station redevelopment plan even though it reduces the state's available revenue to service the debt on bonds. The state intends to reimburse the city for amounts equal to commercial property taxes on the eight sites with annual increasing payments of 3 percent[11]. This shields the city from decreased revenues from possible declining commercial property values. Conversely, the city will not be able to gain from larger property appreciation. Ownership of the eight sites will allow the state to lease them to private developers who will make PILOTs to service debt issued to fund the Pennsylvania Station area plan.

The Penn Station area plan allows developers of the eight sites to ignore the city zoning process because New York City will relinquish zoning determinations for the eight sites to the state. This will allow Empire State Development to replace the city's zoning laws with its own determination of how the eight sites should be developed, including design, use, increased square footage, greater densities, and taller buildings than currently permitted by city zoning.

Vornado Realty Trust which controls five of the eight development sites has withdrawn from the Penn Station Area development project. Vornado Realty Trust's withdrawal in November 2022 from its key role in the Penn Station Development project means the state has to decide how to move forward in its search to secure other financing sources for Penn Station. The state proposed to partially finance the redevelopment of Penn Station and the surrounding area with real estate revenue generated from Vornado's development of its five sites. The Penn Station plan gives Vornado long term leases at a nominal cost with the state similar to what Related Companies and Oxford Properties received for their development of Hudson Yards. Although buildings pay more taxes as the value of property increases, Vornado Realty Trust would not have to pay increased real estate taxes as the value of the property grows. Instead of city real estate taxes, the developer would pay PILOTs to the state. The exact

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10 Fauss, Rachel, "Fund Better Transit with Real Capital Dollars not Schemes," *Crains New York Business*, June 23, 2022.

11 "On Track or Off The Rails?", Fiscal Brief, New York Independent Budget Office, May 2022.

specifications of the PILOT tax rate, however, have not been put forward for review. The other three development sites lie over the station's proposed expansion area and the state would be able to seize them through eminent domain if the owners do not volunteer to sell them if the proposed expansion proceeds. Questions remain about how to finance Penn Station without Voranado's new office towers. Funding Penn Station with federal grants and state and city capital appropriations may be a better idea now that Voranado is taking a step back[12].

Revenue to support the Pennsylvania Civic Area and Land Use Improvement Project depends on the demand for Class A office space that is proposed for the area adjacent to Penn Station. Although the pandemic and remote work have had a negative impact on the value of office property, there has been a flight to quality with Class A office space with good locations and amenities attracting and keeping tenants. Leases in Class A buildings which have more financially strong tenants are less likely to be impacted by a downturn in the economy and by remote work than leases in Class B buildings and Class C buildings which may eventually be repurposed for other uses, such as housing. A 2022 study titled "Work From Home And The Office Real Estate Apocalypse" called the recent loss in value of commercial real estate due to the pandemic and remote work an "apocalypse." The study estimates the city's offices will lose almost $56 billion in value from 2019 to 2029. Remote work and less demand for office space have led to an increased office vacancy rate of almost 22 percent in the city for the second quarter of 2022[13]. These changes affect public finances. If economic activity and office lease revenue decrease, the state's budget and its ability to cover debt and provide services also decreases. Class A offices close to Penn Station, however, will have the advantage of easy transit access to the Long Island Rail Road, NJ Transit, PATH, Metro-North, and subways but would still be in competition with Hudson Yards for office tenants.

Although PILOTs are often promoted as a self-financing and self-sufficient tool for funding infrastructure projects without the need to increase taxes, potential risks can be overlooked for this economic development tool. The Penn Station plan is exposed to the risk of a changing economic landscape and an economic downturn lowering the value of development. Already, Vornado Realty Trust has taken a step back from the project. The Penn Station plan faces a timing risk of the future development not being completed as quickly as the station reconstruction, thereby generating insufficient revenue to cover costs for the station in a timely fashion. Will the sites be developed fast enough to generate sufficient PILOTs? Revenue shortfalls on the renovation of Penn Station and transit

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[12] Nessen, Stephen, "Penn Station Developer Backs Off $22 b Project After Years Working Behind the Scenes With New York Governor," *Gothamist*, November 4, 2022.

[13] Gupta, Arpit and Mittal, Vrinda and Van Nieuwerburgh, Stijn. " Work From Home and the Office Real Estate Apocalypse." National Bureau of Economic Research. Working Paper No. w30526, September 2022.

improvements are another risk that can require public subsidies. The state will fund interest support payments. When the developers of Hudson Yards had a shortfall in interest payments, the city contributed $374 million in interest support payments and tax equivalent payments on $2.7 billion in redevelopment bonds until PILOT revenue could cover the debt service[14]. The Penn Station area plan also faces the risk of cost overruns like those experienced by the 7-line subway extension for Hudson Yards which chose to delete a planned second subway station to save money. With its decision to make interest support payments, the state assumes the risk of development slowdowns and overruns for the Penn Station area plan[15].

PILOTs may diminish the necessity of raising more tax revenue or relying on more government assistance but if PILOTs are based on too low estimates, the shortfall must be covered. Property projections from development would enable the state to develop a financing strategy and issue bonds. Tax increment financing and PILOTs allow municipalities to finance redevelopment with future real estate tax revenue. This includes the acquisition and demolition of land and the building of public infrastructure and open spaces. Municipalities must claim blight exists and that redevelopment would not occur without or "but for" tax increment financing. Public investment in transit infrastructure improvements would attract private development on the eight adjacent development sites which will increase the sites' values, thereby generating revenue to finance the Pennsylvania Station area plan. It would lead to increased economic activity, greater property values, and eventually to increased real estate revenue. The upfront public investments encourage the growth of new property tax revenue (TIFs) or payments in lieu of taxes (PILOTs) which can be captured or diverted to pay for the public investments. Like New York City which approved PILOTs to finance the 7-line extension to induce the Hudson Yards development, New York State proposes to use PILOTs to help finance the components in the Pennsylvania Station Area Civic and Land Use Improvement Project. In considering PILOTs, the state identified the area surrounding Penn Station as needing redevelopment. The state conducted a "but for" analysis determining that the area surrounding the station is blighted and that development would not occur "but for" the PILOT funded Penn Station redevelopment. Instead of using zoning changes to encourage private development, ESD would be able to condemn and then seize properties using eminent domain to encourage private development with long term leases. The total assessed values of the eight development sites in the project comprise the baseline value to use to calculate the incremental taxes. With a projection of the real estate

[14] Fiscal Brief, New York Independent Budget Office, April 2013.
[15] https://cbcny.org/advocacy/statement-empire-tate-development-general-project-plan-and-letter-mutual-agreement-city

taxes that the redevelopment plan will generate, the state can develop a capital improvement and financing plan and negotiate with developers and bond underwriters. With planning approvals, bonds can be issued to finance upfront costs and with development, real estate values rise and the incremental revenue over baseline repays bonds or funds expenditures. Tax payments on full assessed value would resume after a predetermined time period[16].

PILOTs can help stretch capital dollars but they come with risks for taxpayers. New York State needs to consider several issues about Penn Station's redevelopment and its use of PILOTs. Does Penn Station's development plan pass the "but if" test? Would the development of the area surrounding Penn Station have happened and the associated real estate values increase without a redeveloped Penn Station? PILOTs should not be used to attract development by private developers that do not require incentives. Would the area around Penn Station be developed without incentives? Will PILOTs shift economic activity from somewhere else, particularly Hudson Yards, rather than increase economic activity? Can New York State justify diverting future revenue from public services to Penn Station's redevelopment through PILOTs? An evaluation of return on public investment by the state would assess if the additional captured revenue from the area surrounding Penn Station is large enough to justify diverting the new revenue.

PILOTs are supposed to be self-financing meaning they will pay for themselves from new revenue. Will the PILOT agreements require that incremental revenue be shared with the city as it does for Hudson Yards? The state has indicated it will keep excess PILOT revenue. The Penn Station area plan seeks to generate income and sales tax revenue. The state needs to address the ability of the proposed new development in the Penn Station area to generate enough revenue to repay debt service. Because market conditions are not stagnant, the state needs to make revenue projections for varying economic conditions it may encounter over time, including insufficient revenue to fund interest payments, cost overruns,and economic recessions. Clarification is needed about how shortfalls between generated revenue and interest payments will be funded. PILOT or TIF bonds, backed by future real estate tax revenue, pose a greater risk and are more expensive than general obligation municipal bonds, backed by the government's credit. Self-financing the Penn Station project allows New York State to finance the public portion of Penn Station's development while sharing risks with private developers[17].

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[16] "Tax Increment Financing:A Primer," Citizens Budget Commission, December 5, 2017. https:/cbcny.org/research/tax-increment-financing-primer

[17] Ibid.

Estimated project costs total $22 billion with $7 billion for Penn reconstruction, $13 billion for Penn expansion, $500 million for public realm improvements, and $1.5 billion for transit improvements. Cost sharing is split 50%/ 25%/ 25% . The total project costs New York $7 billion, the federal government $10 billion, and New Jersey $5 billion for an estimated total cost of $22 billion. The 50% federal share of Penn Reconstruction costs is $3.05 billion while the 25% New York and 25%New Jersey shares are each $1.75 billion for a total price of $7 billion for reconstruction. The federal share of the $13 billion Penn expansion is $6.5 billion while the New York and New Jersey costs are each $3.25 billion. New York will pay 100% of the $2 billion public realm and transit improvements. The total New York cost is $7 billion which includes $1.75 billion for Penn reconstruction, $3.25 billion for Penn expansion, and $2 billion for public space and transit improvements. The state's goal is to fund the state's share of Penn Station redevelopment. New York will pay $1.75 billion to redevelop Penn Station. The total federal cost is $10 billion which includes $3.5 billion for Penn reconstruction and$6.5 billion for Penn expansion. New Jersey's cost is $1.75 billion for Penn Reconstruction and $3,25 billion for Penn extension[18].

The City-State PILOT Caps are estimated to total $3.75 billion for Penn reconstruction, expansion, public realm improvements, and transit improvements. Pilot revenues will pay for 100% of public realm improvements, such as streets and sidewalks, with a PILOT cap of $500 million, and half of transit improvements, such as new corridors and entrances, with a PILOT cap of $750 million. PILOT revenue will pay for only 12.5% of Penn reconstruction with a PILOT cap of $875 million and for only 12.5% for Penn's expansion with a PILOT cap of $1.63 billion. The Penn Station reconstruction is the expensive portion while public space and transit improvements have more modest costs. With Voranado stepping back from developing towers adjacent to Penn Station, the state needs to re-examine its PILOT program. New York State can appropriate $875 million more in capital funds for the Penn Station reconstruction. The state has already appropriated $1.3 billion to benefit underground transportation at Penn Station. The $875 million represents only 1.5% of the MTA capital plan[19].

EDD provided New York's share of sources and uses of funds for the Penn Station area project. New York State estimates total reconstruction funding sources of $2.75 billion, including an existing NYS appropriation of $1.25 billion, PILOT (reconstruction) of $792 million, PILOT (early public realm improvements) of $100 million, PILOT (early transit improvements) of $450 million, and $158 million for other development generated revenues, including additional development rights and land value. PILOT estimates assume maximum city-state percentage

[18] https://esd.ny.gov/sites/default/files/Penn-Cost-Shares-07242022-2.pdf
[19] https://reinventalbany.org/2022/11/new-york-state-can-fix-penn-station-without-vornado./

caps and a 3 percent annual assessed value increase. The state estimates reconstruction will cost New York State $2.75 billion, including $1.75 billion for Penn reconstruction, $100 million for early public realm improvements, and $900 million for early transit improvements. The state estimates Penn expansion funding sources will total $4.45 billion, including PILOT (expansion) of $1.63 billion, PILOT (longer term public realm improvements) of $400 million, PILOT (loner term transit improvements) of $33 million and other development-generated revenues of $2. 39 billion. Total sources for New York State are estimated at $7.20 billion, including total Penn reconstruction sources of $2.75 billion and total Penn expansion sources of $4.45 billion. Sources match total uses for the state of $7.20 billion, including $2.75 billion for total Penn reconstruction uses and $4.45 for total Penn expansion uses[20].

ESD has developed a financing framework for Penn Station's reconstruction and expansion but the proposed use of PILOTs needs more detailed information to ascertain the risks and benefits of the Penn Station area plan. Project developers are estimated to get over $1 billion in tax breaks[21]. Tax incentives to developers are not specified but abatements will be limited to what developers in the Hudson Yards Uniform Tax Exemption Policy area receive when a development begins construction. New development needs to support economic growth. Tax incentives should be based on how feasible projects would be if they did not receive discounted PILOTs or other tax incentives. The state will negotiate PILOTS with the individual sites. The state must negotiate with potential developers and the federal government over financial terms. The state needs to determine who will pay for the project and what level of tax abatements developers might demand to participate in the development of the area. Questions about the project's financial details remain unanswered. Will the real estate development be able to generate all the funds necessary to overhaul Penn Station? What are the agreements with the developers, who are the developers, and when will the specifics concerning the project be finalized? Will Vornado Realty Trust rejoin the efforts to develop the area surrounding Penn Station?

The Pennsylvania Station area plan wants to replicate the apparent success of Hudson Yards. Large commercial development in the midtown Penn Station area development project, approved by Empire State Development to develop the area surrounding Penn Station, seems to rival Hudson Yards. However, the Penn Station area plan is still in the planning stages without many details about job creation or project construction. Although the need for office and retail space seems to be reduced since the pandemic, the Pennsylvania Station area plan was

[20] https://esd.ny.gov.sites/default/files/Penn-Cost-Shares-07242022-2.pdf

[21] Plavajka, Randy. "How New York Could finance the Penn Station Development," Real estate capital USA December 9,2022.

conceived to develop mostly Class A office space and minimal residential and retail space. However, as evidenced by the ability of Hudson Yards to attract corporate tenants, demand for office space is strong in buildings with new construction, excellent locations, and outstanding amenities. Businesses seek Class A buildings. The Penn Station redevelopment plan seeks to benefit from the flight to quality.

Governor Hochul seeks to put the midtown Penn Station area to its highest and best use by promoting large-scale luxury commercial development that will maximize financial returns. Because property taxes are a big revenue source, the City and State want the tax revenue that new high-value buildings generate. Public investment is necessary to attract developers. Subsidies, such as tax abatements and credits, will encourage new development to generate future tax payments, helping to fund a new and expanded Penn Station and area upgrades. Developers seek profits rather than social equity. They build expensive skyscrapers to attract wealthy tenants who will pay more taxes and spend money supporting restaurants, shops, and other services. Like the City and State, developers want high returns. They build based on financial considerations. Building the tall towers surrounding Penn Station will be expensive. Complex regulations, high construction costs, and expensive property taxes or payments in lieu of taxes) make the development process risky, drawn out, and expensive. Governor Hochul is trying to encourage developers to invest in the area surrounding Pennsylvania Station. The mixed-use plan of 18 million square feet of commercial space is expected to generate revenue that will pay for the redevelopment and the Penn Station expansion and upgrades[22]. The ESD exempted the eight sites in the Penn Station area plan from local zoning regulations and public land use review. New York City's land use review process is known as the Uniform Land Use Review Procedure (ULURP). It is used for land policy including zoning changes. Because of the exemption from ULURP, the New York State Senate introduced a bill, number 6556 ,that requires all large capital projects to undergo ULURP. A formal review by the Senate and Assembly and an approval or veto by the Governor will be followed by public hearings about the project held by the City Council[23].

Among the stakeholders are New York State (New York State Urban Development Corporation d/b/a Empire State Development), New York City, the MTA, the federal government, Community Board 4, Community Board 5, Empire Station Coalition, New York Landmarks Conservancy, and Vornado Realty Trust. Because I am a board member of Save Chelsea, I have been involved as a constituent member of the Empire Station Coalition in

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[22] https://therealdeal.com/2022-07/21/state-greenlights-massive-penn-station-development-plan

[23] Klein, Kristine, " Empire State Development Board Approves Overhaul of Penn Station at Its Circumambient Neighborhood." The Architect's Newspaper, July 22, 2022.

discussions about the future of Penn Station and how the renovation and expansion of Penn Station will impact the surrounding area, both physically and financially. While the State has encouraged public participation in the planning process, it has not clarified the costs or addressed concerns about economic development and demolition of buildings. The project plans to demolish several entire blocks, evict residents, close businesses, and build tall towers in order to fund the illusory Penn Station improvements which largely consist of widening staircases[24].

The New York Landmarks Conservancy does not support the Penn Station project, criticizing its urban renewal approach of demolition and displacement. The project abandons local zoning and uses eminent domain to replace buildings with tall towers. Although Empire State Development describes the area surrounding Penn Station as outdated and substandard, the area actually is a vibrant business area and has many historic sites. Track expansion south of Penn Station requires that three historically significant structures be demolished. These include an original Penn Station Power Station on West 31st Street, the Fairmont Building on West 30th Street, and St. John the Baptist Roman Catholic Church on West 31st Street. The Hotel Pennsylvania on 7th Avenue has been demolished The National Trust for Historic Preservation wants the station's expansion and the surrounding area's development to be reviewed as a single project[25]. Critics of the Pennsylvania Station area plan have voiced concerns about density, displacement of businesses and residents, the lack of information about transit improvements, and the loss of historic buildings[26]. The project falls short on political sensitivity, citizen participation, public hearings, and coalition building. Neighborhood expectations and concerns have been minimized to the detriment of the local community. The local community does not have the political power and bargaining strength of a real estate conglomerate. The Pennsylvania Station area plan relies heavily on promoting real estate interests.

The changing economic landscape surrounding the Penn Station area plan, especially without Vornado's participation, presents the state with financial challenges. New York State will take on the risk associated with the financing for the Penn Station area plan. Because the state will pay interest support payments and put limitation caps on the use of payments in lieu of taxes, New York State will have to cover revenue shortfalls from less than expected commercial development and bear the risk of cost overruns on the Penn Station redevelopment. New York needs to maximize the Penn Station area plan's revenue and assure capital projects stay on budget and are completed on time. Additional information about financing actions, contingency plans, the timing of capital projects, and the flow of

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[24] Davidson, Justin. "Hochul's Penn Station Plan Is The Worst Kind of Urban Renewal," New York Magazine, January 26, 2022

[25] https://www.mas.org/news/penn-station-needs-master-plan

[26] New York Landmarks Conservancy. "Empire Station Complex Would Dwarf Hudson Yards," July 21 2020.

funds would shed more light on project risks and assure that New Yorkers receive maximum value from the Penn Station area project.

Data on costs and revenues from ESD show that revenues will meet debt servicing costs. ESD estimates the total cost of the Penn Station area plan at $22 billion, with costs shared by New York State, the federal government, and New Jersey. New York estimates its share at $7 billion , including $3.75 million for the station's reconstruction and public space and transit improvements. The state has appropriated $1.30 billion in capital funding for the Penn Station area plan. Details about the bonds that will need to be issued to cover the balance of the debt are needed. More information about revenue projections for the payments in lieu of taxes (PILOTs) under the state's value capture financing framework to cover the project's debt should be forthcoming. Details concerning PILOT structure and PILOT real estate tax discounts need to be addressed. Although Madison Square Garden, on top of Penn Station, has an annual tax exemption valued at $43 million per year, the state has not proposed a repeal to the exemption that would either allow the city to collect real estate taxes or require the arena to help pay for the Penn Station reconstruction using PILOTs[27].

Although ReThink NYC, a constituent member of the Empire Station Coalition, conducted polls that indicate the public prefers an above-ground station that is efficient, beautiful, and functional rather than the subterranean station in place now. However, the new Penn Station will remain situated at its current location under Madison Square Garden even though the arena's special zoning permit expires in 2023 and a new station that more closely resembles the classical architecture of the original Penn Station could be built in its place[28]. Decisions about a redevelopment plan for Penn Station should involve greater transparency about the proposed value capture financing, costs, and risks associated with the Penn Station area plan. The current uncertain economic climate makes decisions about the financing of Penn Station's reconstruction and the development of the surrounding area challenging.

Appendix - Comments from Tom Wright on Through-Running Class Discussion

AC: Looking at sort of the through-running project that's going with the Empire Station Plan, the Tri-State Transportation Committee and Robert Paswell who was with the Chicago Transit Authority have both come out in favor of through-running underneath Penn Station. The RPA's still taking the position that it can only happen with

[27] "ON Track Or Off The Rail?," Fiscal Brief, New York City Independent Budget Office, May 2022
[28] Verbinnen, Sard. Penn Station commuter Study: Report of Research findings, November 15, 2019.

the East River Tunnels and with a southern expansion on 31st Street. Do you have anything to comment on why that still remains?

TW: So Amtrak and the MTA and New Jersey Transit have commissioned WSP and a bunch of engineering firms to kind of look at this issue and they have to–they have to determine as part of the whole Gateway Penn Station complex process–they're going through the EIS process. They have to figure out what's the best way to double capacity into the Hudson River. What is the best way to accommodate the new trains when they come in. And, and one option has been–and there are folks who are arguing you don't need to expand Penn Station–what you do is you redesign the tracks and platforms to have more through-running. Um, I almost feel like I should be giving you the MTA's presentation. Um. But um. Uhh. Ah, it's hard to do this also without visuals. Um, so essentially you know one camp is saying you can run trains through; full train comes in, people get off, people get on and the full train leaves. As opposed to the current operation which is full trains come in in the morning, people get off, some people get on at a few trains, and sometimes New Jersey Transit still runs some trains back out to Trenton in the morning and the Long Island Rail Road actually [Unintelligible]. Mostly what the Long Island Rail Road and New Jersey Transit do, they bring full trains in and the people get off the trains and then the empty trains continue through. They do through-running, but it's not kind of what we would call revenue through-running. They run empty trains to the railyards. For most of the Long Island Rail Road trains, that's the Hudson Yards underneath the Hudson Yards development now and for most of the New Jersey Transit trains, they go underneath the East River and they end up in Sunnyside, Queens. They sit there during the day, they get maintained or other things, and then in the evening they come in, they pick people up, and they go back out to where they're going. So that's kind of the way that the system is working now as opposed to a thing like this. The, the..uh, what, what the engineers that I've talked to have all come to–all of them–and Buzz Paswell's not actually looked at the MTA reports, Alon Levy has not looked at the MTA reports, and Tri-state is not engineers. They're architects. Um, it is that essentially while Gateway will add the capacity for something 22 trains an hour to come into Penn Station, through-running, you could get more capacity out of Penn Station, you could reduce the dwell times, you could get more trains going. The way you do it is by actually, it sounds kind of counterintuitive, but you get more capacity out of Penn Station by having fewer tracks and platforms that are wider and maybe some of them have to be longer too. Because a big part of the problem at Penn Station is how much pedestrian congestion you have. If you've ever been trying to get on a train at Penn Station when another train pulled in and people are disembarking at the same time, it's a total nightmare. I have actually been there 15 minutes early and my train got announced and I failed to get on because the platform weren't wide enough which is very, very frustrating. The argument is that by redesigning Penn Station you've created more capacity and what these, what most of the engineering community thinks seems to have a consensus–except for some people–is that could create capacity for–it depends how far you're willing to go with the rebuild of it, how much of Moynihan Station you're willing to tear up, whether or not you're going to tear down 2 Penn Plaza which has footings that obstruct where some of the trains would go, whether or not you know–there are various engineering things you have to do. But that if you did those things, you'd probably be able to handle something like 12 to maybe 15 trains an hour of the 22 that they'd've created. So you do all this redesign and rebuilding and years of disruption at Penn Station and at the end of the day, you've built a tunnel that can create 22 trains an hour and you only have a station that can handle let's say 15 and so the problem is that you're kind of squandering capacity. At Amtrak, and New Jersey Transit, both feel like they need all of that capacity. They're fighting over how to allocate two tracks now and whether they can get that online. So what engineers have concluded is they should expand Penn Station instead to the south, adding more tracks and platforms there connected at the underground level through the Penn Station and then they should build it as a through-running operation so that actually those trains would go all the way through so you get kind of the benefit of through-running too. But they're convinced that you've just got to do the expansion to get the capacity to handle all of the training coming through the tunnel. The folks at Tri-State and ReThink NYC and stuff are not buying that article, they're, they're saying that they disagree with that. But to me, you know, most of what they do, they take a comment from Andy Byford who we all revere as god saying generically through-running is better than a terminal operation and everyone agrees with him but he's not

commenting specifically on that station. So to use that statement as a kind of testimonial in support of that plan is really deeply disingenuous.

AC: Well as I understand, the through-running is the standard throughout the world in most other very developed, very transit-forward cities.

TW: Paris and London have developed through-running systems, absolutely. That is the way to get more capacity out of it. I mean just to be clear, Grand Central is Grand Central terminal, it’s a terminal. It’s the largest terminal in the world actually so it runs–it has so much capacity.